



# Generating Private Sector Financing

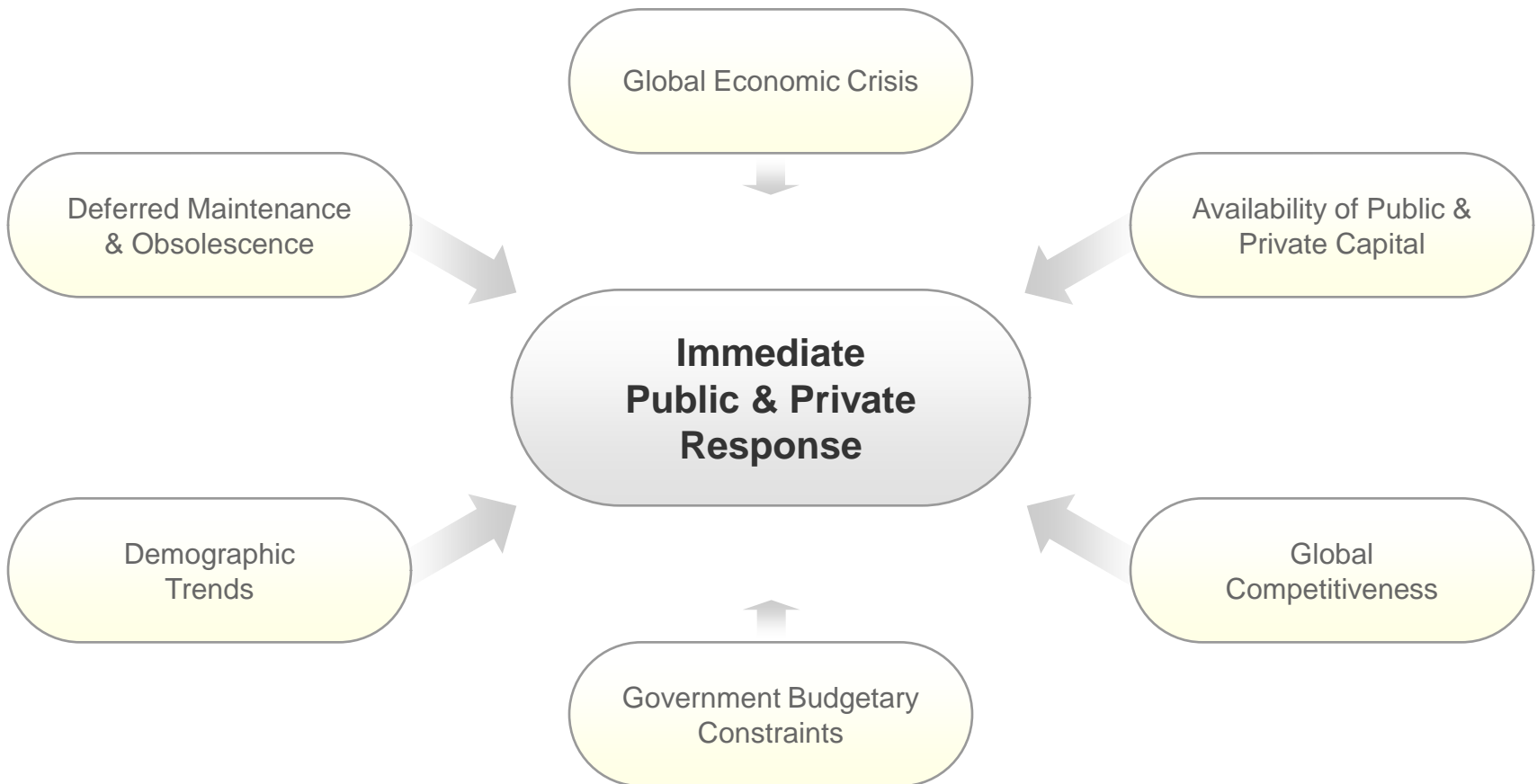
FTA Training Session, Chicago, May 20, 2009

TRC  
TABLE ROCK CAPITAL

# Infrastructure Opportunity

## CONVERGENCE OF FACTORS DRIVE 1: 50 YEAR INFRASTRUCTURE OPPORTUNITY

» Factors present before the economic crisis, which is accelerating the opportunity



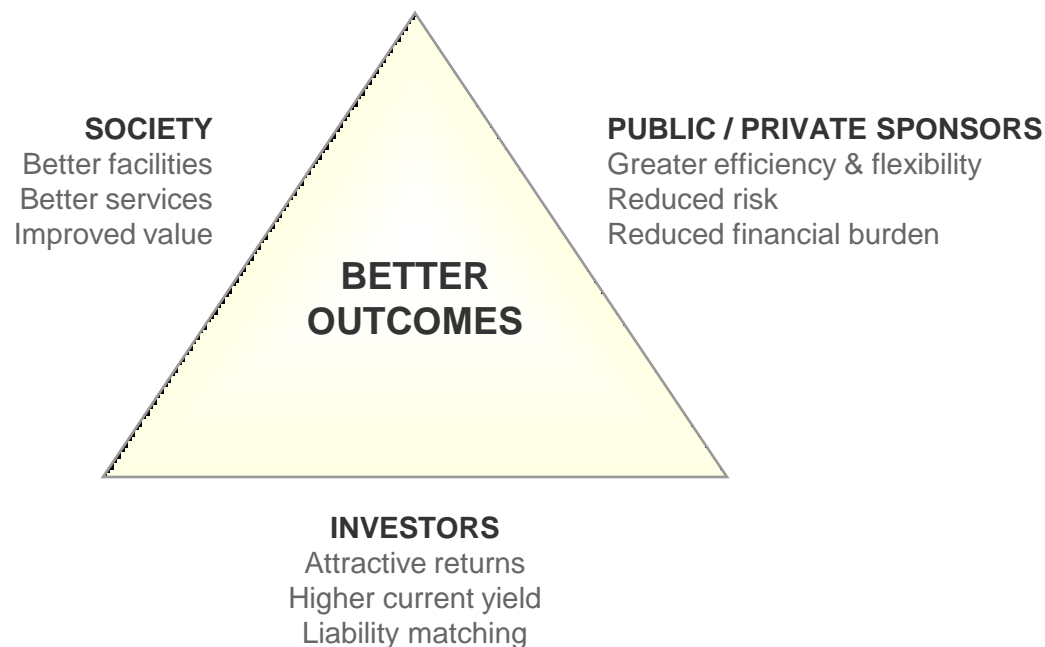
# Balancing Stakeholder Interests

**CONSIDERATION FOR ALL PARTIES LEADS TO BETTER OUTCOMES**

» **Blend public policy interface and finance experience**

- Promotes ability to balance stakeholder priorities
- Enables alignment of interests in complex projects

» **Crisis breeds opportunity**



# Change in Procurement Methods

**RISK TRANSFER GENERATES “BETTER OUTCOMES” AND LIFE CYCLE COST SAVINGS**

- » Private sector capital is attracted by the opportunity to contract for the long term
  - Investors looking for non-correlating, long duration assets with current income and low volatility
- » Moving from public to PPP approach changes roles and responsibilities
  - “Whole Life Costing” aimed at “Better Outcomes” for the public sector

ADDRESSING DESIGN, BUILD, FINANCE, OPERATE (“DBFO”) ELEMENTS

Public	Mixed	Private (PPP)
<p><u>Public Sector:</u></p> <ul style="list-style-type: none"><li>• <b>Input Specification</b></li><li>• Design &amp; Engineering</li><li>• Traditional Funding Sources</li><li>• Acts as Operator</li><li>• Covers Operating / Maint. Costs</li></ul> <p><u>Private Sector:</u></p> <ul style="list-style-type: none"><li>• Design/Build</li><li>• Fits to Contracting Rules</li></ul>	<p><u>Public/Private Sector:</u></p> <ul style="list-style-type: none"><li>• Mix of Roles &amp; Responsibilities</li></ul>	<p><u>Public Sector:</u></p> <ul style="list-style-type: none"><li>• <b>Output Specification</b></li><li>• Oversight</li></ul> <p><u>Private Sector:</u></p> <ul style="list-style-type: none"><li>• Design</li><li>• Build</li><li>• Finance</li><li>• Operate</li><li>• Maintain</li></ul>

# Shift in Public Policy Since January 1, 2009

## **NEW ADMINISTRATION COMBINED WITH ECONOMIC STRESS DRIVES CHANGE**

- » **Three events converge to form a the basis of a shift in policy at the federal state and local levels**
  - Stimulus package
  - National Infrastructure Bank (“NIB”)
  - California PPP legislation
- » **Taken together these public policy initiatives have the potential to reform infrastructure procurement practices for the long term**

# Stimulus Package

- » **\$787bn stimulus package finalized in February 2009**
- » **Approx. \$150bn dedicated to infrastructure**
- » **\$38bn allocated to States for highways, bridges, public transit and water projects**
  - California received highest allocation of \$3.9bn followed by NY and Texas at \$2.8bn each
- » **TIFIA**
  - \$200 MM dedicated to TIFIA translates into ~\$2 BN of additional lending
  - DOT will no longer fund projects on a first come, first serve basis. Reverting to a fixed date solicitation process that awards money to the highest-priority projects
- » **Remainder allocated through federal programs including:**
  - School improvement programs
  - Renewable energy
  - Electricity delivery and reliability
  - Forest services

# National Infrastructure Bank

- » **A National Infrastructure Bank provision (\$5bn/year for five years) was included in the FY 2010 Obama Administration Budget Summary released on February 27,2009**
- » **Would provide grants, credit assistance and tax incentives to invest in America's Infrastructure**
  - NIB could support projects sponsored by public, private and non-profit entities
- » **“Qualified projects” include transportation, water and wastewater, public housing, energy, schools and health care facilities**
- » **Will encourage project sponsors to identify new revenue streams, promote effective governance and spark innovation in the infrastructure sector**
- » **Proposed pilot program to provide:**
  - \$9bn in discretionary grants
  - \$10bn in direct loans for up to 33% of eligible project costs
  - \$10bn in tax credit bonds

# California PPP Legislation

- » **New budget legislation passed on Feb. 19<sup>th</sup> to fill \$42bn deficit through June 2010**
- » **Budget provides enabling legislation for PPPs**
- » **The legislation allows:**
  - Unlimited PPPs on state transportation projects through 2017 and up to 4,500 beds in community-based prisons for inmates nearing parole
  - Design / build procurement to be used on specific projects
  - Acceleration of environmental permit approval for 8 state road projects
  - Establishment of new entity called a Public Infrastructure Advisory Commission
    - Will advise California Department of Transportation (DOT) and regional transportation agencies in developing transportation projects through performance-based infrastructure partnerships



# Private Capital is Available

## CAPITAL STRUCTURES HAVE BEEN IMPACTED

### » Financing market has shifted

- Lenders demand credits that offer less risk, stable cash flows and greater visibility
- Favors well-structured infrastructure projects
- Broad syndications of debt are not available, but 'Club' deals can still get done
- Debt margins have increased from 75-125 bps to 300 to 600 bps

### » In this most severe phase of the crisis limited deals are being done with 100% equity

- Plan to re-finance once the financial markets begin to recover
- Adds significant re-financing risk
- 100% equity project are a temporary approach - not sustainable or desirable for an extended period of time

### » Expect project financing for infrastructure projects to improve before corporate financing

- Well-structured deals with solid commercial structures and low business risk will be able to attract debt and equity
- Terms will improve as the crisis abates

# Florida I 595 Case Study

**AVAILABILITY PAYMENT STRUCTURE APPLIES TO MASS TRANSIT**

- » Florida Department of Transportation (FDOT)
- » \$1.76 BN 35 year concession
- » ACS Dragados Development
- » FDOT will set toll rates, retain all revenues and make availability payments to the private concessionaire from toll proceeds.
- » High Occupancy Toll (“HOT”) Lanes in the center of I-595
  - \$800 MM Private Bank Loan
  - \$675 MM TIFIA Loan
  - \$200 MM Private Equity
- » 10 Year private bank loan package



# Equity Investment Drivers

## WHAT MOTIVATES PRIVATE SOURCES OF CAPITAL

### » Procurement process reliability

- Well-thought out process that doesn't change mid-course
- PPP legislation finalized before starting procurement
- Timely procurement and contract negotiations

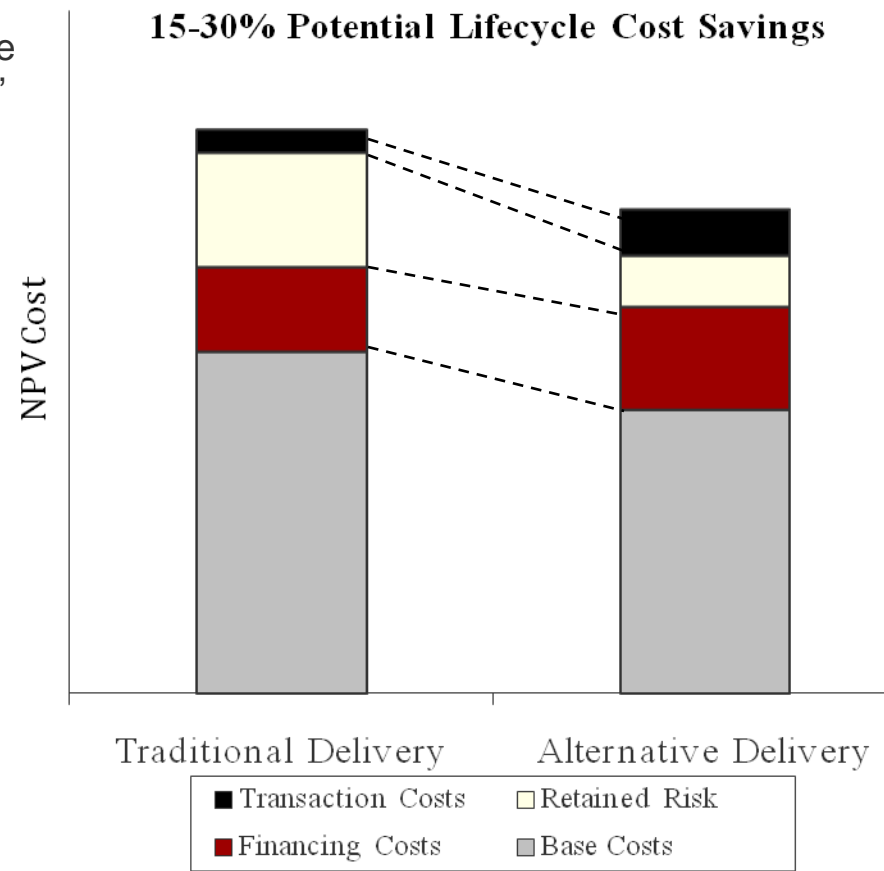
### » Realistic project structure

- Clearly defined roles and responsibilities
- Realistic and effective risk sharing
- Predictable and reliable stream of future cash flows
  - Availability payments
  - Comparatively stable fare box and traffic flow
- Demonstrated Value for Money (“VfM”) in the public/private sector comparator
  - Reduces political risk
  - Creates long term stability for the public benefactors and private investors

# Value for Money ('VfM') / Comparator

## TOOL FOR EVALUATING PROJECT DELIVERY MODELS

- » Defined as the “optimum combination of whole life costs and quality (or fitness of purpose) of the good or service to meet the user’s requirements”
- » VfM analysis compares the NPV of total project costs to public sector of traditional and alternative delivery methods
- » Drivers of VfM
  - Life cycle costing
  - Competition
  - Single point of responsibility
  - Output based contracting
  - Innovation
  - Economies of scale
  - Scope efficiencies
  - Bulk purchasing power of the public sector



# Risk Transfer – Cash Flow Water Fall

## CAPITAL BELTWAY PROJECT

**Gross Revenue**

**O&M Costs**

**Capital Expenditures**

**Senior Interest**

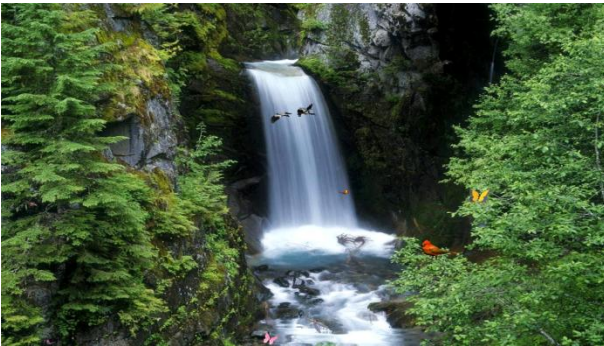
**Senior Principal**

**Debt Service Reserves**

**TIFIA Mandatory Debt Service**

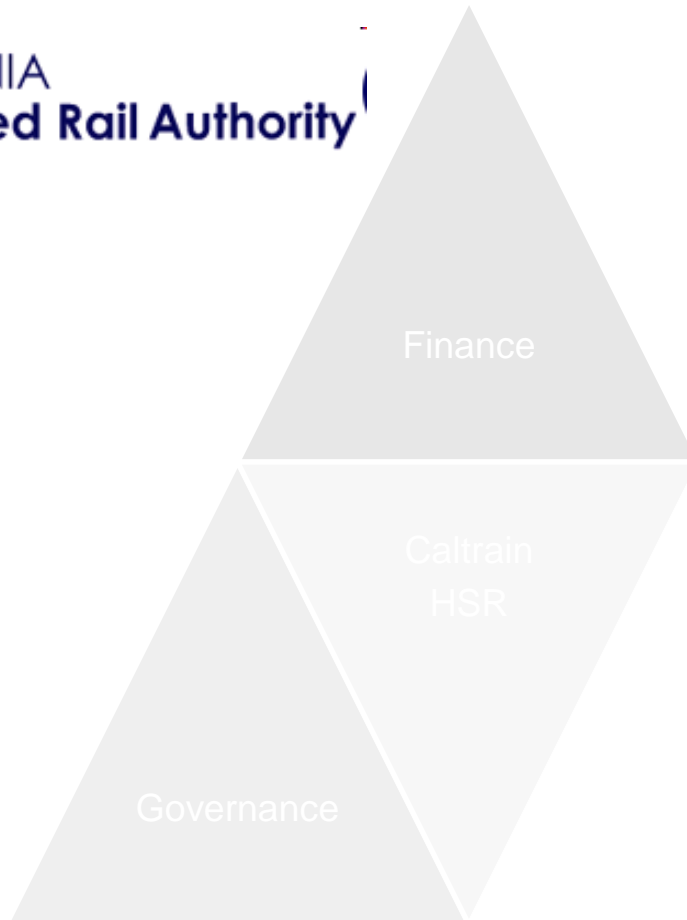
**TIFIA Scheduled Debt Service**

**Equity Distributions**



# Cal Train, California High Speed Rail

## TOOL FOR EVALUATING PROJECT DELIVERY MODELS



Putting the  
Pieces  
Together

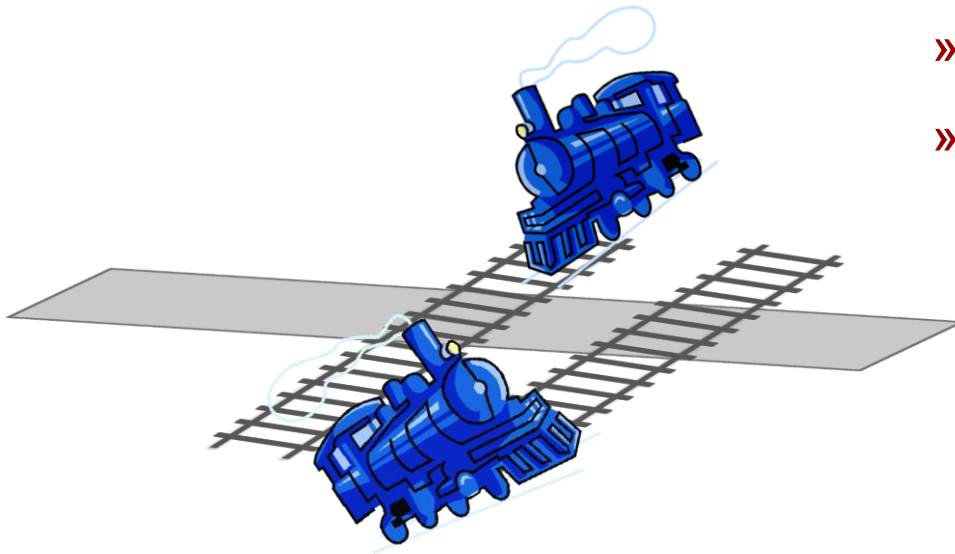


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# Cal Train / HSR – Ideal Case

## Status Quo

- » Cal-Train Only
- » Diesel Powered

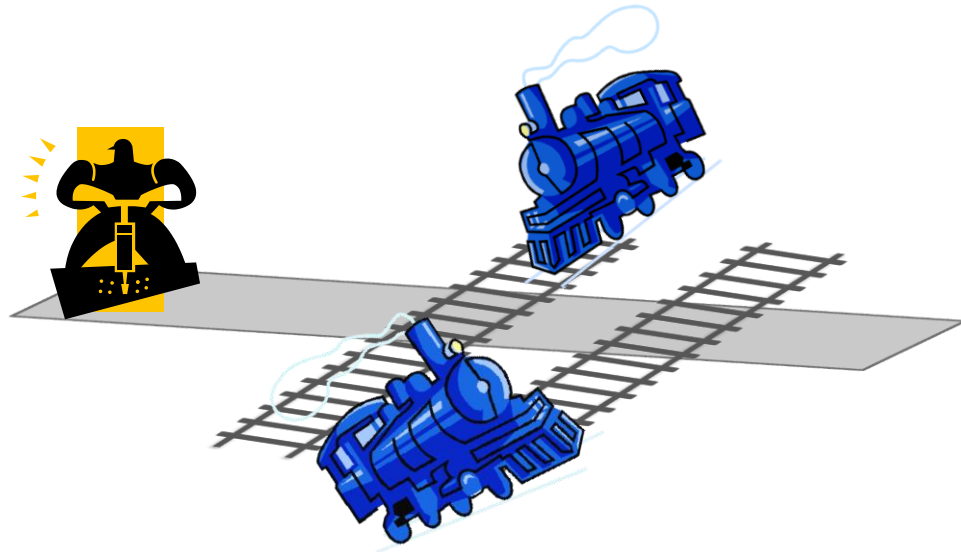


Today



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# Cal Train / HSR – Ideal Case



## Stage 1

- » Cal-Train Only
- » Diesel Powered
- » Regional Coordination
- » Initial Cost Sharing



+1 Year



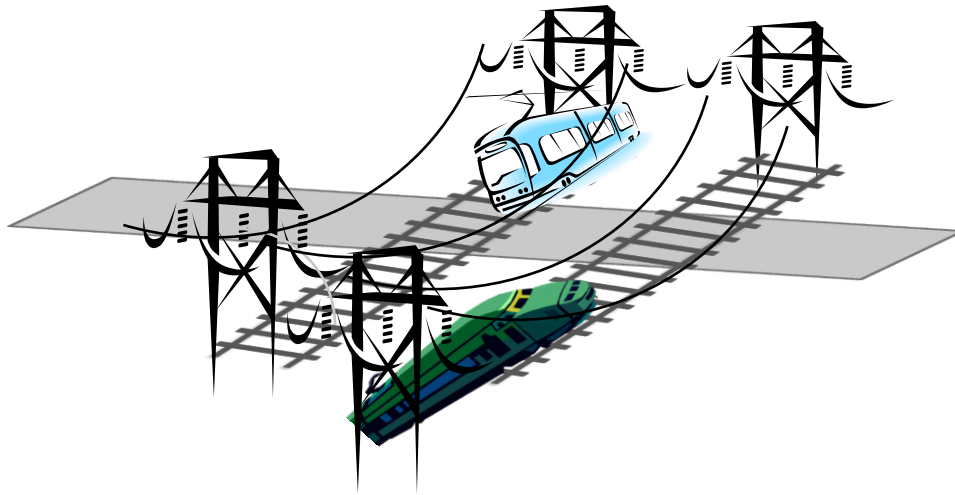
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# Cal Train / HSR – Ideal Case

## Stage II

- » Cal-Train + HSR on same tracks
- » Electrically Powered
- » Initial Operating Agreement
- » Regional Control w/ State Planning

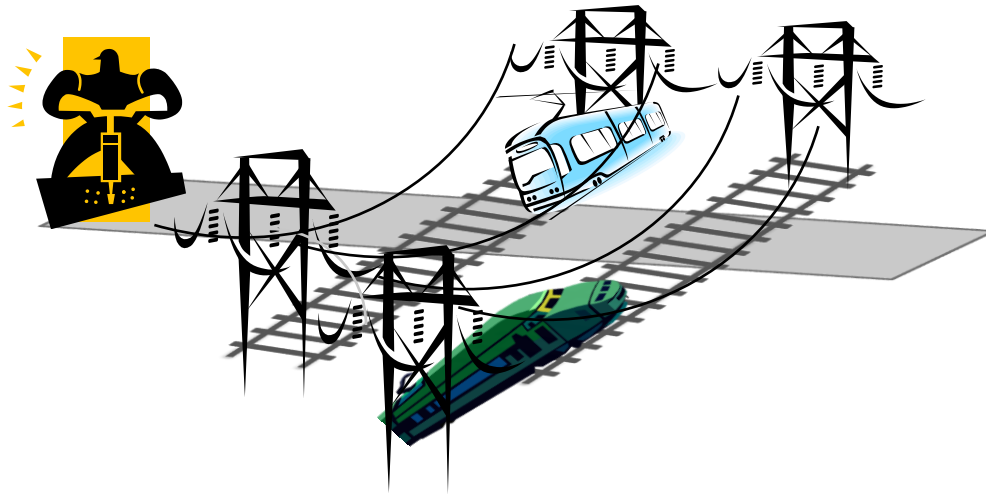


+5 Year



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# Cal Train / HSR – Ideal Case



## Stage III

- » Cal-Train + HSR
- » Electrically Powered
- » Initial Operating Agreement
- » Regional Control w/ State Planning

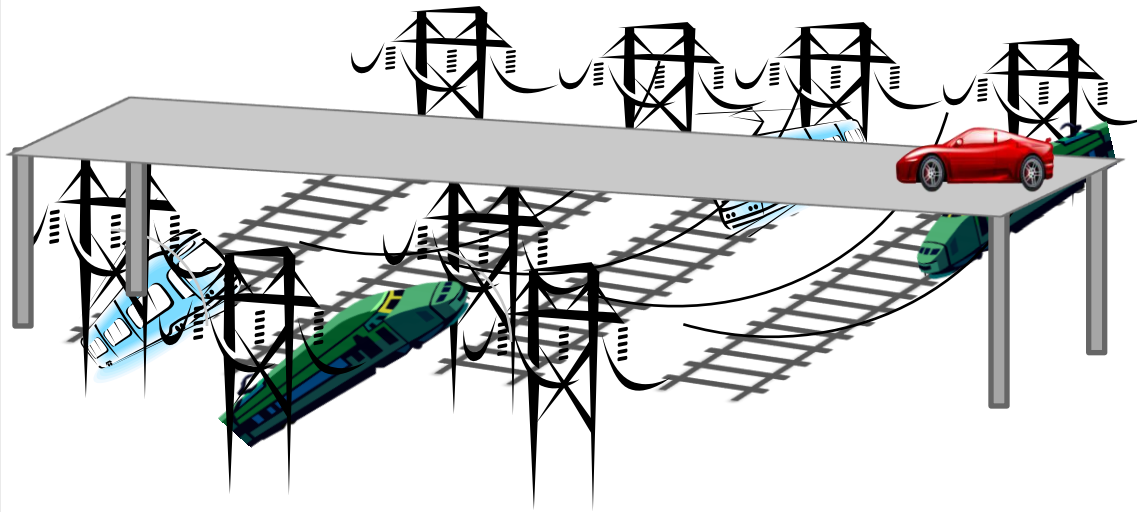


+5 Year



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# Cal Train / HSR – Ideal Case



## Stage IV

- » Independent, mutually supportable tracks
- » Revised Operating Agreement
- » Integrated Regional & State Control
- » Grade Separated, Optimal Speeds

+7 - 9 Year



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# Finance Issues – Conclusions

## Now

### Collaboration for electrification

- *HSR shares investments and/or provides funding*

## Shared tracks

### Operating agreement

- *Price considers use of the infrastructure and services provided by Caltrain*

### Shared new investments

- *Caltrain' stake is based on future benefits generated by new investments*

## Separated tracks

### Operating agreement II

- *May be beneficial for both companies to keep the agreement*

# Finance Issues – Next steps

## Operating Agreement

### Cost of services

- *Cost for HSR to use Caltrain's assets*
- *Cost of services that will be provided to HSR*

## Shared investments

### Impact in revenue/costs (in collaboration with HSR)

- *Potential gain from commute passengers*
- *Gains in efficiency*
- *Potential attraction of new passengers*
- *Potential loss from migration of passengers and possible mitigations*
- *Potential loss during construction*

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# Attracting Private Capital

## DEFINING PUBLIC PRIVATE SECTOR PARTNERSHIPS IN THE U.S.

### PLANNING REFORM

Federal, State, Local Coordination; life cycle planning & costing

### PUBLIC/PRIVATE INTERFACE

NIB: debt funding in Crisis, TIFIA Reform; center of PPP expertise

### CROSS CUTTING POLICIES

Resolve cross cutting policies; implement rigorous comparator

### LABOR & ENVIRONMENT

Labor standards; improved EA process; opportunity cost assessment

### 1:50 TO 1:100 YEAR OPPORTUNITY

Improve global competitiveness, economic productivity, create jobs

**PRIVATE CAPITAL WILL FLOW**

# Contact Us

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